

**Organismo Italiano di Contabilità – OIC (The Italian
standard setter)**

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Mr. Johan van Helleman
EFRAG, Chairman
Avenue des Arts 41
B -1040 Brussels

18 february, 2004

Re : IFRIC Draft interpretation D3: Determining whether an Arrangement contains a Lease

Dear Johan

We are pleased to provide our comments on the draft interpretation D3 of IFRIC, dealing with *Determining whether an Arrangement contains a Lease*.

1. We agree with the IFRIC D3 objective to apply the provisions of IAS 17 (Leases) to those arrangements which give the purchaser the right to use a specific item or items for a specified period of time in return of contractually determined payments. We also concur with the criteria set forth in points 6 (a), 6 (b) and 6 (c) of the exposure draft, all three criteria of which should be met to determine that an arrangement contains a lease.

2. We concur with the underlying assertion that the core of the arrangement consists of the right to use the item or items (excluding others from using the item) rather than the underlying asset.

3. We believe that with the enforcement of D3 several arrangements presently accounted for on the basis of their legal form will fall within the provisions of IAS 17 and, accordingly, will have to be accounted for based on their substance; however, it is probable that a number of such arrangements will include items which only in part could be considered as leases (see paragraph 3, e.g. "the right to use 50 per cent of the capacity of a pipeline"). We understand that ED3 does not intend to deal with the issue of how to determine if and when the right to use a component of a larger item should be accounted for as a lease; nevertheless, since ED3 recognizes that in some cases the treatment of a component of a larger item as a lease might be appropriate, we would appreciate some guidance in this respect.

4. Separating payments for the leases from other payments. We agree that each component of a payment should be accounted for in accordance with the respective relevant accounting standard, even when the separation of such elements requires an estimate. We also believe that paragraphs 10 a) and 10 b) are appropriate in those cases where such separation result impracticable; however, we suggest that, in addition to the disclosures required by ED3, the reasons which caused the impossibility to separate the payment components be also disclosed.

Should you like further clarification as to the above comments, we would be glad to discuss them further with you.

Yours sincerely,

Prof. Angelo Provasoli
(OIC – Chairman)

March XXX, 2004

Kevin Stevenson Chairman IFRIC 30 Cannon Street
London EC4M 6XH UK

DRAFT FOR COMMENTS by 8 March 2004

Dear Kevin,

Re: IFRIC Draft Interpretation D3 *Determining whether an Arrangement contains a Lease*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the draft of the IFRIC Interpretation D3 *Determining whether an Arrangement contains a Lease* ("D3"). This letter is submitted in EFRAG's capacity of contributing to IASB's and IFRIC's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRIC on the issue.

Objective We support the objective of D3 to apply IAS 17 *Leases* to arrangements which convey a right to use an item for a specified period of time in return for payments even if the contract does not take the legal form of a lease. D3 provides guidance in particular on how to determine whether an arrangement is, or contains, a lease and when assessment or reassessment should be made. We further agree with D3 that the core of such arrangements is the right to use rather than the underlying asset itself. We expect that a lot of arrangements such as outsourcing, take-or-pay contracts or service concessions, which are currently off balance sheet, will fall within IAS 17 by the application of D3.

Components of larger items

We see this draft interpretation as only an interim step towards a full revision of IAS 17. We recognise that given the limited scope IFRIC does not intend to deal with further aspects such as a full components approach and its consequences. Reading the last sentence of paragraph 3 together with BC4 we agree that in some cases a right to use a component of a larger item gives rise to an item that should be treated as a lease consistent with D3, e.g. the right to use half of the capacity of a pipeline in a throughput arrangement. However, IFRIC clarifies in BC4 that questions of identifying components of larger items raise issues which are beyond the scope of D3. Although we acknowledge that it is difficult to draw the line in an interim measure such as this draft interpretation, we should like to see some guidance with regard to rights to use components of larger items.

Separation of payments

We agree with paragraph 8 of D3 that IAS 17 has to be applied for the lease element only and that other elements must be accounted for in accordance with other Standards. As a consequence, we agree with the separation of payments for the lease from other payments as required in paragraph 9 if the payments are of material amounts. We believe that paragraph 10 deals appropriately with those cases where it is not possible to separate the payments reliably. We note with approval that IFRIC intends to consider addressing disclosure of executory contracts more generally in a separate project.

If you would like further clarification of the points raised in this letter, Paul Rutteman or myself would be happy to discuss these further with you.

Yours sincerely

Johan van Helleman
EFRAG, Chairman

